Nation's Restaurant News®

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

SECOND CLASS

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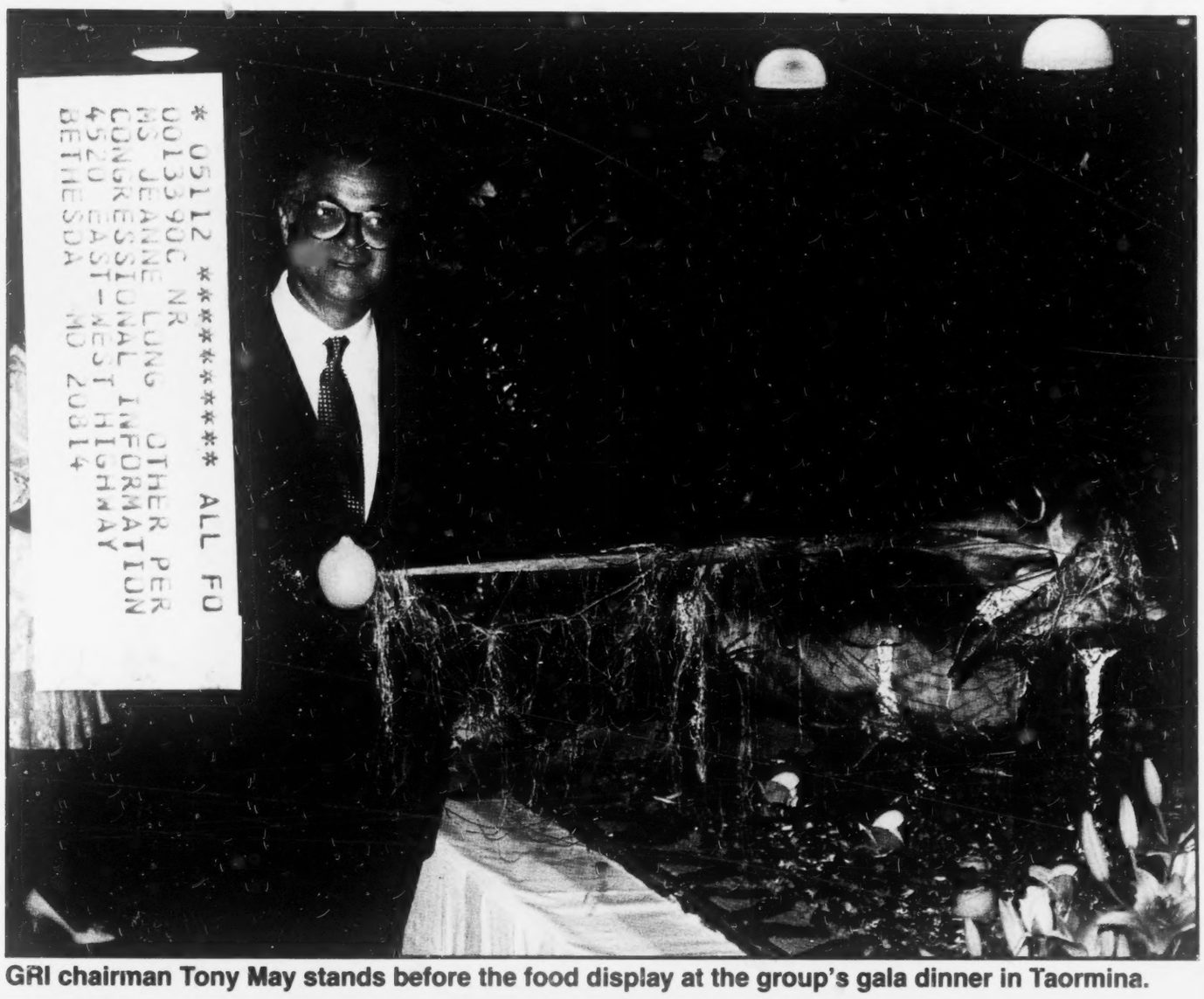

GRI chairman Tony May stands before the food display at the group's gala dinner in Taormina.

GRI trip whets appetite for southern Italian fare

by Paul Frumkin

PALERMO, Sicily — The lush Mediterranean island of Sicily proved to be fertile ground for new culinary ideas as fine-dining restaurateurs from North America gathered here late last month for the annual convention of the Gruppo Ristoratori Italiani.

A renewed interest in the foods of southern Italy prompted the group's exploration into the highly flavored cooking of the country's southernmost region, said members of GRI — an organization of foodservice professionals formed to promote a better understanding of Italian food and wine.

More GRI photos appear on page 74

And with few exceptions, the GRI operators found some idea or recipe to take to their restaurants back home in the

(See GRI, page 157)

NRA directors unite to quash child-labor bill

Emergency lobbying blitz after board meeting helps kill initiative

by Peter Romeo

WASHINGTON — A plea for on-the-spot action turned a routine National Restaurant Association board meeting here into a dramatic lobbying display, with directors helping to swat down a proposal that could have landed some restaurateurs in jail.

The measure would have subjected employers to imprisonment and $250,000 fines for child-labor-law violations resulting in "serious injury" to workers under age 18. It defined "serious injury" as an inpairment requiring a youngster to miss one or more days of work.

Hearing of the initiative even before it was formally introduced in a House committee, NRA directors mounted an emergency telephone lobbying blitz to keep the measure from being incorporated into a bill.

Under pressure from other groups as well, the plan's proponent quickly decided to shelve it.

The matter was decided in

(See LOBBYING, page 4)

McDonald's developing separate dinner menu, puts pizza test on hold

by Milford Prewitt

OAK BROOK, Ill. — Moving farther afield from its beginnings as a sandwich specialist, McDonald's is developing a burgerless separate dinner menu anchored by pizza and supplemented by chicken, pasta or other entrées.

The chain, which has been striving to bolster persistently weak evening traffic, said it would put its 500-unit pizza test on hold while it tests several pasta dishes and refines its skinless broiled chicken offering over the next several months.

The new dinner menu, expected to be ready within two years, will not include sandwiches or burgers, reported analysts attending a biennial meeting with company officials. McDonald's told the stock pickers that a new beef entrée and a

(See MCD, page 157)

INSIDE

Break out of that shell and be a survivor
James C. Doherty/Page 29

Welcome to MUFSO '91
Special report/Page 35

NAFEM '91: Bigger and better than ever
Patt Patterson/Page 126

Fresh or frozen? KFC, franchisees in Skinfree fracas

by Peter O. Keegan

LOUISVILLE, Ky. — Skinfree Crispy, a reduced-fat product whose rollout has been suspended because of pinched margins and operational problems, has turned into a new roadblock in KFC's struggle to turn sales around.

A chicken fight between the company and franchisees has ensued over whether the skinless fried-chicken product should be made with fresh or frozen birds. Either way, KFC's newest entry will not reach 3,000 of the company's 5,000 domestic stores until the issue is settled. A resolution is not expected until next year.

Meanwhile, the segment-leading chicken chain is scheduled to replace Skinfree Crispy with a reformulated frozen version in the 2,000 Northeastern and Southern units that have already added the product.

Franchisees are hammering for a fresh Skinfree Crispy product because they believe that the quality is superior to frozen and do not like paying extra for supplier-prepared prod-

(See KFC, page 7)

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NEWS BRIEFS

Days Inns files for Chapter 11

ATLANTA — Days Inns of America said it has filed for Chapter 11 bankruptcy protection in Wilmington, Del., to facilitate the $250 million sale of its franchise system to Hospitality Franchise Systems Inc.

On the same day two insurance companies and an investment trust filed to put debt-laden Days Inns into involuntary Chapter 11. Northern life Insurance of Seattle, Northwestern National Life Insurance Co. of Minneapolis and High Income Advantage Trust of New York filed their Chapter 11 petition in New York.

Days Inns officials contend that the involuntary filing has no effect on their company because they filed voluntarily for the chance to reorganize first.

Completion of the transaction with HFS, the parent company of the Ramada and Howard Johnson franchise systems, is subject to bankruptcy court approval and would create the world's largest hotel franchisor.

Sbarro negotiates to acquire Square Pan Pizza

SAN FRANCISCO — Sbarro said it is in negotiations to acquire the Square Pan Pizza concept from the company's developer and operator, PeopleFeeder Inc.

Bob Kobelle, chief financial officer of the Commack, N.Y.-based pizza company, disclosed the plans at the Montgomery Securities 21st Annual Investment Conference here. The deal includes the sale of eight units in retail malls, two units at San Diego State University and concessionary rights at the San Diego Zoo, according to Jeff Partrick, president of the private San Diego-based PeopleFeeder.

According to Partrick, the deal also includes the sale of such Square Pan Pizza trademarks as 'Square Meal' as well as the tag line, "We don't cut corners."

Park Foundation buys Yosemite concessionaire

SAN FRANCISCO — The National Park Foundation has agreed to buy Yosemite Park & Curry Co., the main concessionaire at Yosemite National Park, for $49.5 million and capitalized interest.

Yosemite Park & Curry Co., a division of the Los Angeles-based entertainment company MCA Inc., became the center of controversy last year when Matsushita Electric Industrial Co. of Japan purchased MCA.

When the purchase was announced, a public outcry arose claiming that control of the Yosemite concession should remain in American hands. The outcry came on top of complaints by environmentalists that Yosemite Park was becoming too commercialized and that MCA was pocketing too much profit from the concessions. At the time Matsushita officials said they would sell operation of hotels, restaurants and other park businesses within a year.

By purchasing the concessionaire from MCA, the National Park Foundation in effect will control the park's concession operations between now and October 1993, when the current concessions contract expires, said Stephen Crabtree, chief of the division of concession program management for the Western Region of the National Park Service.

Schlotzky's tests revamped menu

HOUSTON — Schlotzsky's Sandwich Restaurants has started testing a revised menu in this market.

The revamped menu emphasizes pizza, lighter sandwiches and more salads and soups, according to John Wooley, president of the Austin, Texas-based chain. The original Schlotzsky's sandwich, modeled after the New Orleans muffaletta, remains unaltered.

Chef Michael Dyer, known for his innovative Southwestern cuisine at Alana's in Austin, is Schlotzsky's new corporate chef.

Alan Lewis, Rainbow Room vet, dies at 70

NEW YORK — Alan Lewis, managing director of the Rainbow Room and a longtime veteran of the New York restaurant industry, died of heart disease. He was 70.

"He was a great restaurateur, and thousands of guests and staff members enjoyed the efforts of his life," said Joe Baum, Rainbow Room president. "More than 40 years of working together left me wanting more. He was my friend."

Lewis was born in the Bronx in 1920 and attended the Hotel School at Cornell University in Ithaca, N.Y. He worked at the Waldorf-Astoria and the old Ritz Carlton in New York before joining Restaurant Associates as director of the Newarker restaurant in 1950. Working with Joe Baum, Lewis helped to open such landmark restaurants as the Four Seasons and Forum of the Twelve Caesars. He also worked with Baum on Windows on the World at the top of New York's World Trade Center.

In 1987 he rejoined Baum in the multimillion-dollar renovation of the Rainbow Room.

New York's mayor, David Dinkins, called Lewis "a first-class restaurateur and a dear friend of mine, whose kindness and generosity touched the lives of so many people."

McD revises menu offerings at Golden Arch Cafes

OAK BROOK, Ill. — McDonald's Golden Arch Cafe, a year-old test concept the company started as a way to penetrate small-town America, will undergo a slight menu change as the company opens more test units.

Unlike the original Golden Arch Cafe, which did not rely on McDonald's regular menu, the newest test units in Hohenwald, Tenn., and Machias, Maine, will include the standard McDonald's fare as well as a personal pizza.

The initial Cafe, opened a year ago in Hartsville, Tenn., is about one-half the size of a regular McDonald's restaurant and seats 50 diners.

Besides the regular menu and pizza, the new Golden Arch Cafes will feature deli sandwiches, baked pies and a version of the McRib sandwich.

'Taste of LA' promoter faces city's legal bite

SANTA MONICA, Calif. — The city attorney's office said it plans to sue Martin J. Ellis, the Beverly Hills-based promoter of the annual "Taste of L.A." restaurant festivals here, after he wrote bad checks totaling about $65,000 for expenses of this year's four-day event and allegedly reneged on a deal to rerent the civic auditorium for a French food fair.

"We had some unusual problems that forced me to bounce some checks," Ellis said, blaming them on his delayed collection of a festival backer's sponsorship funds and the alleged theft by ticket salespeople of between $25,000 and $40,000 of the admission receipts totaling between $250,000 and $300,000. The festival's issuance of uncollectible checks is something that "happens every year," Ellis said.

Taste of L.A.'s accounting firm hastily paid Santa Monica $58,380 for fees and auditorium rent after $45,000 in rent checks bounced and the city attorney threatened to attach an escrow account that contained more than $1 million in revenues from the August festival.

Deputy City Attorney Amelia Sherman said she knows of about $20,000 in other bad checks issued by Ellis to vendors who supplied or served at the sixth annual event, which attracted 38,000 paying attendees over two successive weekends and featured booths from about 50 of the area's best-known restaurants. Ellis said the vendors now have been paid.

All the restaurants have redeemed from the escrow account the scrip they collected for specialties priced less than $6, said Eric Blanchard, the festival's accountant. However, the homeless-aid charities that in the past have received about $55,000 a year from Ellis' share of the proceeds are not expected to get anything this year, he added.

To obtain a reprint of NRN's 1991 Top 100 issue, a comprehensive ranking of the nation's 100 largest chains and companies plus a segment-by-segment look at the foodservice industry, please send a check for $10 to: **Nation's Restaurant News, 425 Park Avenue, New York, N.Y. 10022. Attention: Diane Babat.**

FINANCIAL NEWS

Strong regional players help stock multiples soar

by Milford Prewitt

Well-placed "niche players" have fueled a strong rise in the average price-earnings ratio for restaurant stocks, with industry issues clearly drawing stronger adulation from investors.

The price-to-earnings multiples for the stock of companies like Cracker Barrel, ShowBiz Pizza Time, Sonic, Bertucci's Pizza, Brinker International, Sbarro, Vicorp and even earnings-soft Uno Corp. are giving rise to what some analysts believe is a record high P/E ratio for the industry.

Based on the 12-month performances of the 72 restaurant stocks composing the NRN Stock Index, the segment is trading at an average of 20 times earnings. In other words, the issues' price is on average 20 times the level of earnings.

The development is puzzling because of the recession and a consensus that the restaurant industry has matured.

"Yeah, you can say the industry has reached its maturity, but if you look at the companies that are growing, you find companies that are well situated in their niche," said David Geraty, an analyst who follows 17 restaurant stocks for Equitable Securities in Nashville, Tenn. Geraty noted that the average earnings multiple for the 17 issues he follows is 25.

In comparison to other industry's P/E ratios, the restaurant segment's figure suggests that the sector is riding the crest of a bull market. Transportation stocks have a P/E ratio of 8, airline multiples are at 18, retailing stores are trading at 15 times earnings and the homebuilding industry's average P/E ratio is 11.

"Why are people giving these [restaurant] companies these valuations?" Geraty continued. "The answer simply is that these are strong companies that are dominating their niche and [show] growth [that] is outpacing the industry."

"Investor perception right now is that there is a lot of opportunity for growth in the restaurant segment," said Roger Lipton, an analyst for Ladenburg, Thalmann in New York, "and that is why we see the multiples at historic highs."

Lipton supported Geraty's thesis that niche players are fueling the averages.

> The P/E ratio is just one of many weather vanes that savvy investors use to gauge the profit potential of companies.

"If you look at the 72 stocks on the [NRN] stock table, the majority are primarily small, regional companies," he said. "If you look at those that are growing their earnings, they are regional players for the most part, almost specialty companies, which, in a fragmented industry, are growing successfully.

"These are companies that won't become obsolete. These are well-established restaurant companies that are virtually impregnable to national competition and are doing quite well. Investment is just flowing into small-growth stocks like these."

The P/E ratio is just one of many weather vanes that savvy investors use to gauge the profit potential of companies. It is one of the quickest ways to sense the future strength of the stock.

Derived by dividing the price of a stock by its earnings per share in a given quarter or fiscal year-end, the P/E ratio, or multiple, in its broadest application is frequently used to determine if the price of a stock is in line with a company's underlining earnings.

Some analysts rely on a 12-month trailing period to determine the multiple. Others, like Lipton, project forward 12 months.

Whatever method is used, the P/E is thought to be an equalizer that discounts high-share prices and elevates low ones, enabling stocks to be measured on a level playing field based on a company's earnings performance.

Therefore the industry's premier blue-chip issue, McDonald's, which closed recently at $33.25 a share, fares no better on a P/E basis than Cucos, which closed at $1.38 per share. McDonald's multiple, based on the 12-month trailing period for the quarter ended in June, is 15, while Cucos' is 20.

"It's really interesting that McDonald's is at a historically low multiple while the rest of the industry is at a historical high," Lipton said.

While P/E ratios are not the most accurate signpost of a company's strength, many analysts draw a lot from them. Multiples under 10 tend to signal companies whose earnings per-

(See STOCK, page 156)

FOOD PRICE OUTLOOK

Tomato canning running behind

by Patt Patterson

California's **tomato** canners are running behind last year's schedule, and the U.S. Department of Agriculture has revised its estimate of this year's pack downward. By mid-September, farmers delivered 8 percent less tomatoes to the canneries, compared with the 1990 figure. The U.S.D.A. lowered its estimate of this year's California canning tonnage by 5 percent and dropped the national production forecast 6 percent. That national figure, however, is still 1 percent higher than that of 1990.

There should be plenty of **applesauce** and **sliced apples** around in the coming months. The International Apple Institute estimated that there will be slightly less applesauce canned this year than last, but it will still be 5 percent more than the recent five-year average. The canned sliced apple pack is expected to be 8 percent higher than last year's and 13 percent higher than the five-year average. Prices for both sauce and slices, however, have remained stable. Don't expect much change until November, when the Northwest pack is under way in both products.

Both **beef** and **pork** prices are still running below last year's at this time, but some analysts expect prices to start moving up in mid-October. **Frozen cod** blocks and slabs, from which portions are cut, are beginning to move up in price. Stocks are about 5 percent larger than at this time last year, but demand is starting to cut into them. Frozen cod imports are still down drastically from what had been normal until three years ago.

Cheese prices, on the heels of increases in industrial milk prices, are rising again. Although the current hikes are moderate, some analysts see decreased U.S. milk production, fostered by the federal government, pushing cheese prices up to new records this winter. Demand for cheese, particularly from pizza makers, has risen steadily over the past several years.

FACT FILE

More money for your footage

(sales per square foot among casual themers)

Macaroni Grill (Brinker Int'l)	$479
Regas Grill (Brinker Int'l)	$479
Outback Steakhouse	$417
Shoney's	$400
Chili's (Brinker Int'l)	$367
Pizzeria Uno	$364
Bertucci's	$364
Applebee's	$341
Bakers Square (VICORP)	$333
Sizzler	$333
Cracker Barrel	$330
Village Inn (VICORP)	$305
Chart House	$277
IHOP	$276
Denny's (TW Services)	$260
Ryan's	$250
Quincy's (TW Services)	$244
Buffets International	$200
Spaghetti Warehouse	$168

Source: Montgomery Securities

FINANCIAL DIGEST

Giant Group increases stake in Rally's

BEVERLY HILLS, Calif. — Giant Group Ltd., a major shareholder of Rally's Inc., has alerted the Securities and Exchange Commission that it has increased its stake in the double-drive-thru burger concept.

Giant Group said it bought 85,000 additional shares of Rally's common stock, increasing its ownership to 44.5 percent.

Giant Group said it intends to continue to buy Rally's common stock, in both private and public transactions, for an indeterminate time.

Burt Sugarman controls Giant Group.

Koo Koo Roo slates initial public offering

WASHINGTON — Koo Koo Roo, a 3-year-old chain specializing in flame-broiled, skinless chicken, in undertaking an initial public offering to raise more than $7.1 million in equity on the offering of 1.437 million shares at $5 a share.

In a government filing, Los Angeles-based Koo Koo Roo acknowledges that it has yet to make a profit and that its revenues have been flat in the face of rising expenses. For the six months ended June 30, Koo Koo Roo lost $766,000 on $1.2 million in revenues.

The company currently operates nine restaurants, seven in Los Angeles and two in New York. It is also the franchisor of an additional five units.

Proceeds from the offering will be used to expand the chain, beginning with seven new company outlets within the first 12 months of the stock offering.

Food costs squeeze JB's 3rd-Q net

SALT LAKE CITY — JB's Restaurants said net income for the third quarter ended July 1 fell 53 percent, to $486,000, even though revenues rose 8 percent, to $40 million.

Despite the increase on the top line, earnings were affected by recessionary conditions, weather-related increases in produce prices and the offering of low-margin promotions, the company said.

The company indicated it expects sales to be soft through the fourth quarter.

For the first nine months of its fiscal year, the company made $952,000, a 40-percent decline from the year-ago figure, on a 10-percent increase in revenues, to $94.3 million.

JB's operates 136 restaurants.

Skyline Chili's 3rd-Q profits dip

CINCINNATI — Skyline Chili earned a net of $218,000 in the third quarter ended Aug. 4 — $1,000 less than a year ago — while revenues fell 4 percent, to $4.7 million.

But in the 40 weeks composing the period, net income jumped 13 percent, to $509,000, on a 1-percent gain in revenues, to $15.1 million.

"We were pleased by our results," William G. Kagler, Skyline's president and chief executive, said in a statement, "particularly since they were the result of much better expense controls across the board."

Kagler also said case movement of Skyline's frozen products through supermarkets increased by 11.3 percent through the third quarter, but restaurant sales at both company and franchised units were flat.

"Our game plan remains the same," Kagler said. "We will continue to exert tighter control of administrative and operating expenses until a more complete economic recovery produces better sales trends and facilitates aggressive marketing investments."